



**AU17- 004 Phase 1A Parks and Recreation
Revenue Collection – Beach Parking Permits
Follow-Up Report**

**City Auditor's Office
George H. Holland
City Auditor**

September 12, 2023

Executive Summary

In accordance with the FY2017 Annual Audit Plan, we conducted an audit of the Parks and Recreation Revenue – Beach Parking Permits for the City of Corpus Christi (City).

The objective of this follow-up audit was to address the previously issued interim reports relating to permit inventory controls, vendor review, and adherence to the Interlocal Agreement.

The three interim reports issued from dates December 2019, through 2020, made a total of nine recommendations for improvement over three areas to the Parks and Recreations (P & R) management of permits.

The three areas included:

- Permit Inventory Controls
- Vendor Reviews
- Adherence to the Interlocal Agreement

A citywide initiative to implement the maintenance tracking software *Maximo* was installed. The City Auditor's Office (CAO) identified that P & R – Beach Operations is in its early stages of implementation and is currently using *M5 software* managed by the Fleet Department, which tracks the maintenance status of equipment.

P & R management accepted the recommendations from the interim reports and agreed to make appropriate changes in their processes and procedures.

P & R management indicated that seven of nine recommendations had been implemented; however, the CAO found six had been implemented, two were in progress and one had not been implemented. A complete list of recommendation statuses can be found on pages 4-5 and additional information on recommendations can be found on pages 6 through 12.

P & R management agrees with this report and provides responses following each issue, which can be seen in its entirety in Appendix B.

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Background

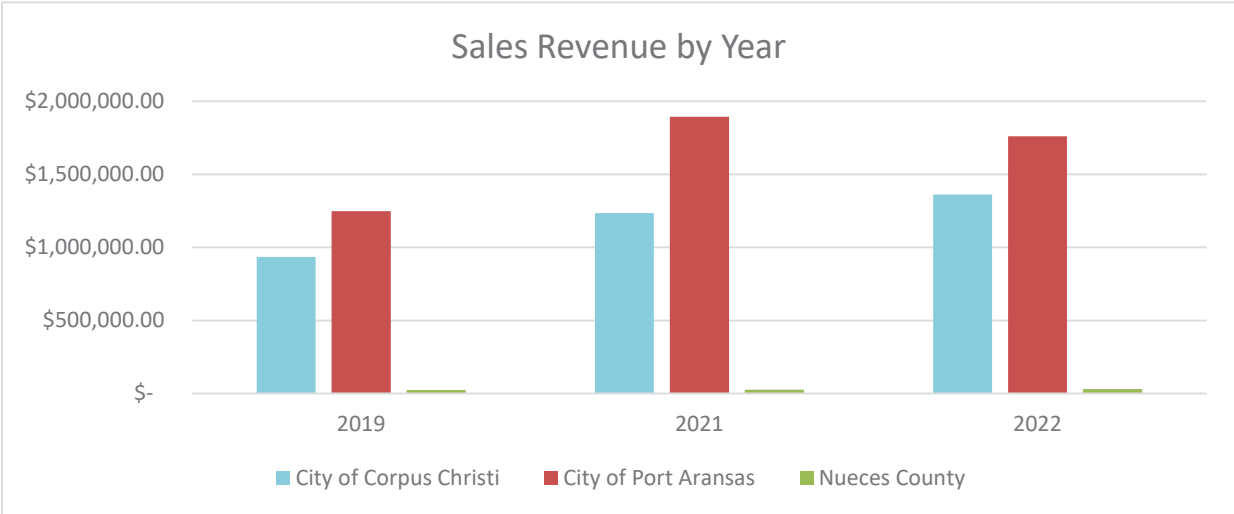
In accordance with the 2017 Annual Audit Plan, the CAO conducted a follow - up audit on the Beach Parking Permit program administered by P & R – Beach Operations division. The audit scope included a review of the calendar years of 2019, 2021, and 2022. This review consisted of the revenue collection process and adherence under the Interlocal Agreement with the P & R Department (Parks). The year 2020 was not included in the scope due to Covid-19 pandemic.

P & R manages and maintains the City parks, beaches, open spaces, and various recreational facilities. They offer a wide range of recreational, social, nutrition, fitness, and cultural activities for all ages.

Beach Operations is fully tasked with operating the Beach Parking Permit program. The staff consists of 7 full-time and 7 part-time employees to distribute permits to anyone planning to park their vehicle on the beach. The Beach Parking Permit program is a cornerstone of the Beach Operations division and generates significant revenue for the City each year. See Exhibit –1 Entity Sales Revenue by Year. Beach permits are available to purchase on site and through vendors contracted with the City. These vendors include Stripes, H-E-B, Naval Air Station-Corpus Christi, Corpus Christi Visitor Info Center, Texas A&M University - Corpus Christi, Center Cashiering at City Hall, Circle K, and Murphy Oil USA.

Additionally, Nueces County and Port Aransas contribute to the beach permit sales each year and are governed by the Interlocal Agreement, which is an agreement among the City of Corpus Christi, City of Port Aransas, and Nueces County. This document details the sales and enforcement of beach parking permits and the operating procedures.

Exhibit -1 Entity Sales Revenue by Year



The CAO issued preliminary recommendations to P & R – Beach Operations in 2019, to address the issues related to implementing inventory controls over beach parking permits. The CAO conducted an impact review in 2020 and issued interim recommendations addressing adherence to the Interlocal Agreement regarding the basis of revenue sharing by entity. During this review, the CAO discovered a former City employee, suspected of failing to deposit over \$9,000 in permit sales revenue was facing trial. On August 8, 2023, the former City employee's case has now been dismissed. At the present time, the reason for the dismissal is unknown.

Previously, Beach Operations failed to standardize internal procedures which increased operational and legal risks. Beach Operations has improved operational effectiveness through the implementation of processes, controls, and department accountability.

Management and Auditor Responsibility

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, and financial or non-financial activity is accurate and reliable. Additionally, management is responsible for ensuring that all staff are in compliance with laws, regulations, and agreements with other entities.

This audit report is an independent objective analysis itemizing recommendations and providing information concerning the activities reviewed to assist management to discern findings and implement specific improvements.

The CAO conducted this performance audit in accordance with accepted government auditing standards, which require an unbiased review of processes, procedures, and operational practices to obtain sufficient, appropriate evidence based on audit objectives. Furthermore, audit guidelines were developed to provide an objective assessment of business practices. The methodology can be found in Appendix A - Audit Scope and Methodology.

AU17-004 Parks and Recreation, Beach Parking Permits Follow-Up Report

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
A. Permit Inventory Controls			
1	<p>P & R management should validate receipt of beach permit stock order contractor.</p> <p>P & R management should review and validate the delivery of new permit stock receipt of inventory by: print, sign, and date inventory receipt acknowledgement.</p> <p>P & R management should compare cases and permit numbers to packing slip, invoices or other documents that lists permit number range from permit contractor.</p> <p>P & R management should develop procedures to address lost or damaged permits.</p> <p>P & R management should require vendors to return damaged permits to gain credit for unsold inventory.</p>	<i>Implemented</i>	<i>Implemented</i>
2	<p>P & R management should simplify tracking of beach permits by creating a spreadsheet and updating throughout the year by combining forms 2020 Beach Permit Case Monthly Inventory Form and 2020 Permit Distribution Accountability Form.</p> <p>P & R management should revise sheets with a field for signature for permit stock under dual control. Two people need to print, sign, and date stock removal.</p> <p>P & R management should have an authorized designee if removal cannot be obtained to singular pulling permits.</p> <p>P & R management should have dual control verification performed by a specified date with printed names, signatures, and dates validating those permits removed from the stock.</p>	<i>Implemented</i>	<i>Implemented</i>
3	<p>P & R management should issue receipt to all vendors receiving delivery of permit stock.</p> <p>P & R management should include fields for staff and vendor to print and sign their name and date receipt permits.</p>	<i>Implemented</i>	<i>Implemented</i>
B. Lost or Damaged Permit Replacement			
1	<p>P & R management should document procedures to adjust, charge, or apply credit for lost or damaged permits. Before issuing replacement permits to contracted retailers, implement the process to return damaged permits to obtain credit for unsold inventory.</p>	<i>Implemented</i>	<i>Implemented</i>

C. Non- Contracted Vendor Receiving Permit Stock			
1	P & R management should only deliver permits to vendors with executed contract agreements on file. P & R management should issue receipts to all vendors who receive delivery of permit stock.	<i>Implemented</i>	<i>In progress</i>
D. Interlocal Agreement Adherence			
1	P & R management should validate that revenue sharing is complying with the interlocal agreement.	<i>Implemented</i>	<i>Implemented</i>
2	P & R management should validate the calculated revenue used in the contract rate.	<i>Implemented</i>	<i>Implemented</i>
3	P & R management should recover City costs for managing Beach Parking Permits.	<i>Not Implemented</i>	<i>Not Implemented</i>
4	P & R management should approve revenue sharing.	<i>Implemented</i>	<i>Implemented</i>
5	P & R management should obtain signatures from both P & R and the Finance Department to confirm final numbers before checks are written.	<i>Implemented</i>	<i>Implemented</i>
E. Program Administration Cost			
1	P & R management should recover the costs of the Beach Parking Permits. At the very minimum, the cost of the permit stock should be shared.	<i>In Progress</i>	<i>In Progress</i>
F. Revenue Sharing by Parks Prior to Disbursement			
1	P & R management should create a process and procedure to share final numbers with the appropriate signatures from the departments involved to ensure accuracy and legitimacy in the numbers being presented.	<i>Implemented</i>	<i>Implemented</i>
G. Maximo - Preventative Maintenance Software			
1	P & R management should use Maximo to track equipment maintenance status.	<i>N/A</i>	<i>N/A</i>

Interim Audit Results and Recommendations – In Progress

A. Permit Inventory Controls

Documentation and procedures exist for managing permit inventory; however, the process does not require documented dual control for a second person to confirm receipt of inventory.

Beach Operations receives the beach parking permit inventory for the next year at the end of the current year. Receipt of permits includes examining the delivery by manually logging permit case numbers, permit number range, and count of permits per bundle. This log is compared to the order form and later entered on the spreadsheet for tracking purposes for the remainder of the year. Another log is created to identify permit sales by Beach Operations staff members selling on-site or through a contracted retailer.

The P & R – Beach Operations Gulf Beach Parking Permits Orientation Handbook provides guidance to staff on reconciling permit sales daily. However, it does not formally document permit inventory controls. The handbook needs to be revised to formally document the permit inventory process and implement a dual control for tracking the permit inventory to minimize the risk of theft.

Recommendation(s):

P & R Management should

- 1) Validate receipt of beach permit stock order from the vendor. The review should include tracing delivered cases and permit numbers to the packing slip, invoices, or other document that lists permit number range from vendor.
- 2) Implement signature/date receipt documenting acknowledgment of permit inventory and verified by a second person with a signature/date.
- 3) Simplify permit tracking by creating a master spreadsheet log for permit inventory that combines permits sold by staff and retailers.

Management's Response:

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Robert Dodd, Parks Director	01/01/2021
<i>Action Plan: The department implemented the audit recommendation to consolidate the Inventory Form and Distribution Form into one Master Inventory Log. This log is supplemented by the Staff Distribution Form (signing out beach permit stock) which includes dual control signatures/dates.</i>		

B. Vendor Review/Lost or Damaged Permit Replacement

There are no procedures to address how to recover costs for lost or damaged permits. The Gulf Beach Parking Permits Orientation Handbook provides guidance to staff to

reconcile permit sales daily, however, it does not document damaged permit inventory controls and oversight.

P & R did not have policies and procedures in place to follow a formalized process for damaged permit inventory. Without proper procedures for lost or damaged permit inventory, Beach Operations cannot properly account for lost or damaged inventory. This further results in failing to account for recovering costs for lost or damaged inventory.

Recommendation(s):

Parks Management should:

- 1) Document procedures to adjust, charge, or apply credit for lost or damaged permits. Before issuing replacement permits to contracted retailers, implement the process to return damaged permits to obtain credit for unsold inventory.

Management’s Response:

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Robert Dodd, Parks Director	11/19/2020
<i>Action Plan: The department implemented a procedure to validate the receipt of beach permit stock. It has also implemented a policy and procedure for "Damaged" permits.</i>		

C. Non – Contracted Vendor Received Permit Stock

All vendors must be registered with the City to process invoices and issue payment to the vendor. Once the vendor submits the invoice, the Finance department will process the invoice and issue the payment in the form of a check or electronically through Automated Clearing House (ACH) to the vendor’s bank.

At the time, Beach Operations delivered permits to CVS to participate as a retailer, which consequently did not have a contract with the City. All vendors selling City beach parking permits should have a contract to obtain payment within Net 30 days or issue a purchase order. CVS was paying cash for the beach parking permit sales. A former City employee personally led an initiative to use only cash. Beach Operations staff believe this is due to poor past performance related to remitting payments late when invoiced.

Beach Operations records show the vendor received 2,000 beach parking permits, valued at \$23,000 (\$11.50/each), between the period of December 2018 and August 2019. Per stipulations within vendor's agreements, off beach permit sellers should remit \$11.50 per permit sold to the City. The vendors keep \$.50/per permit as profit.

The CAO traced the beach permits provided to this vendor to the Beach User Fees bank statement and the City’s Infor Financial System and were only able to identify \$9,200 in revenue recorded. CAO was unable to locate the deposits for the remaining 1,200

permits. Valued at \$13,800, issued during the period of May – August 2019. On August 8, 2023, the former City employee’s case has now been dismissed. At the present time, the reason for the dismissal is unknown.

Recommendation(s):

P & R Management should:

- 1) Only deliver permits to vendors with contracts on file.
- 2) Issue receipts to all vendors who receive delivery of permit stock.

Management’s Response:

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Robert Dodd, Parks Director	01/01/2020
<i>Action Plan: The department only delivers permits to vendors with contracts. Currently, the department has a contract with all "selling" vendors, except for HEB, which is in progress.</i>		

D. Interlocal Agreement Adherence

Revenue Sharing Not Calculated on Gross Permits Sales and Interlocal Revenue Sharing Not Based on Contract Terms

The City of Corpus Christi (City) revenue shares are based on the City’s permit sales (i.e., Beach Operations, Central Cashiering, and City vendors) only and not the total revenue collected by all governmental bodies. Revenue sharing for City beach permit sales sold by Beach Operations and Central Cashiering is based on the face value of the permit (\$12) when the contract allows for \$11, which applies to the City of Port Aransas and Nueces County.

Contract Section IV Standard Operating Procedures states, “The parties agree that the Beach Parking Permit System shall be operated under the Standard Operating Procedures (SOP), which will be attached to this agreement as Attachment C.” This attachment describes the distribution to Nueces County, the City of Port Aransas, and the City of Corpus Christi as 16%, 38.5%, and 45.5%, respectively. Contract First Amendment Attachment C, Section 1b states “on-beach discount fee of \$11 is established for either on-beach contractual sellers or the governmental entities themselves.”

The City of Corpus Christi (City) revenue shares are based on the City’s permit sales (i.e., Beach Operations, Central Cashiering, and City vendors) only and not the total revenue collected by all governmental bodies. The City of Port Aransas revenue shares at \$10/permit for a class of vendors which is below the floor amount specified in the interlocal agreement at \$11/permit for on-beach sales. Revenue sharing in 2019, was being calculated only on the City sales. When it should be over the gross permit sales amongst the government bodies. Port Aransas at the time, was revenue sharing \$10/permit.

Recommendation(s):

Parks and Recreation Management should:

- 1) The cost of permit stock should be shared amongst the government bodies.
- 2) Signatures from both Parks and Recreation and Finance to affirm final numbers outside the City and checks are written.
- 3) To increase permit revenue, consider proposing to Nueces County having City staff sell permits on their beaches since an agreement is in place for City Lifeguards on County beach access.

Management’s Response:

Agree/Disagree	Responsible Party, Title	Completion Date
Agree	Robert Dodd, Parks Director	In progress
<p><i>Action Plan: We recommend holding the City of Port Aransas to the contracted terms of the interlocal cooperation agreement. This would mean Port Aransas should pay revenues based on the contracted amounts and would have to incur the loss for the discounted rate. In addition, the City of Corpus Christi should pay shares to entities based on the agreed-upon terms.</i></p> <p><i>Our second recommendation is to re-structure the interlocal cooperation agreement so that it explicitly states that permits cannot be sold below the floor amount of \$11 per permit. Additionally, language is needed to clearly state that all revenue generated by selling permits at \$12 each by either governmental body will result in a withholding of \$1 per every \$12 permit sold.</i></p>		

E. Program Administration Cost

The City pays for the costs of permit inventory, distributes permit inventory, performs a year-end audit, and calculates amounts payable for all participants.

The *Gulf Beach Parking Permits Orientation Handbook* provides guidance to staff on reconciling permit sales each day. It does not specify the distribution of the beach operations management duties between the entities involved.

The City of Corpus Christi occupies a larger percentage of the total mileage of beaches that are covered in the Interlocal Agreement. P & R attains a larger burden of managing the Beach Parking Permit Program. The City of Corpus Christi pays for the cost of the beach parking permit stock, distributes the permit inventory, performs the year-end audit, and calculates amounts payable for all participants. As of 2022, there was an outstanding balance owed to the City of Corpus Christi. In total, Port Aransas and Nueces County owe the City of Corpus Christi \$88,946.55.

Recommendation(s):

Parks and Recreation Management should:

- 1) Recover the costs of the beach parking permit program. At the very minimum, the cost of the permit stock should be shared.

Management’s Response:

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Robert Dodd, Parks Director	In progress
<i>Action Plan: Due to staff turnover at Parks and Recreation, most current staff was not here during this audit. This will require discussion with ELT/CM as to recoupment, and the number of years to recoup. The department will discuss this with ELT.</i>		

F. Revenue Sharing by Parks Prior to Disbursement

Prior to the Finance department sharing annual totals for revenue sharing to City of Port Aransas and Nueces County, final calculations need to be shared with the Parks Director. Signatures from both Parks and Finance to affirm final numbers should be obtained before sharing outside the City and checks are written. In the future, performing this calculation and other similar financial roles should be performed by Parks.

Parks did not have policies and procedures in place to follow a formalized process for review. This would be a suggestion moving forward. In the Interlocal Agreement, pg. 1, “3. Revenue will be held by each entity in a segregated account and will be reviewed quarterly by the representatives of the entities.”

Without proper signatures, there is no evidence that the final calculations were reviewed and verified for accuracy by management prior to submission. This ensures authenticity and accuracy, which minimizes the risk of inaccurate information.

Recommendation(s):

Parks and Recreation Management should:

- 1) Create a process and procedure to share final numbers with the appropriate signatures from the departments involved to ensure accuracy and legitimacy in the numbers being presented.

Management’s Response:

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Robert Dodd, Park Director	01/01/2020
<i>Action Plan: The Parks and Recreation Department approves revenue sharing.</i>		

G. Maximo – Preventative Maintenance Software

See Follow – Up Audit Results and New Recommendations.

Follow-Up Audit Results and New Recommendations

A. Permit Inventory Controls

In the original audit, Beach Operations did not have written policies and procedures detailing the handling of permit inventory, the process, and controls for inventory storage. Although the process for permit handling and recovering costs for lost or damaged permits, there were no formal policies in place during the audit. Failure to implement policies and procedures results in knowledge gaps in succession periods and failure to comply with legal requirements. Beach Operations, since then, has formalized written procedures detailing the permit inventory control process.

The CAO observed the process and controls for permit inventory. Beach Operations demonstrated the process for security, access, and inventory. Beach Operations has drafted an employee handbook detailing the proper handling procedures for parking permits. The CAO further identified that there were no formalized succession plans written for the beach operation's managerial task.

Recommendation(s):

A.1 Parks' management formalized written policies and procedures for the handling of permit inventory should be completed.

Management Assertion: In Progress
Audit Status: In Progress

A.2 Parks should document procedures on how to adjust, charge or credit for lost or damaged permits. Prior to issuing replacement permits, require contract resellers to return damaged permits to gain credit for unsold inventory.

Management Assertion: In Progress
Audit Status: In Progress

B. Vendor Review-In Progress

Lost or Damaged Permit Replacement-Implemented

During our review, we noted issues relating to inventory controls over the beach parking permits. The CAO identified that P & R had delivered permits to HEB without a signed contract on file for the Calendar years 2021 and 2022.

To test if inventory controls were implemented, we reviewed and verified all contracts/agreements with the City to the year-end reconciliation and permit invoices. We found that P & R delivered to HEB locations without a signed contract on file.

Recommendation(s):

B.1 P & R management should only deliver permits to vendors with executed contracts on file. All Beach parking permit resellers should have a copy of an executed agreement, including the Director of Parks and Recreation on file prior to receiving any permits.

Management Assertion: In Progress
Audit Status: In Progress

C. Interlocal Agreement- Permit Program

During our review of the revenue collections, The CAO identified that Port Aransas is billed once at the beginning of the year in January following the previous year's sales. Beach Operations performed a conditional simulation on increasing the frequency of billing and this resulted in revenue owed to the City of Port Aransas. Beach Operations and the CAO concluded that increased billings would be detrimental to the City.

During the initial review, revenue sharing amongst the governmental bodies was not calculated on gross permit sales. The City of Corpus Christi's revenue shares are based on the City's permit sales only and not the total revenue collected by all governmental bodies.

The CAO identified that revenue distribution was not being calculated on gross permit sales in 2019. Parks, has since then, corrected this error in 2021 and 2022.

In the previous interim report, it was recommended to create a process and procedure to share final numbers with the appropriate signatures from the departments involved to ensure accuracy and legitimacy. P & R calculates and sends the revenue share split to the Finance department for final review prior to issuing the payment. Since then, the CAO identified the appropriate signatures from the departments involved.

Recommendation(s):

C.1 P & R leadership should collaboratively work with the city of Port Aransas to increase transparency and potentially recover costs from past years' billings.

C.2 P & R should enforce requirements mandated in the Interlocal Agreement.

Management Assertion: Not Implemented
Audit Status: Not Implemented

D. Maintenance of Beach Operations – Maximo (Maintenance Tracking Software)

As a city-wide initiative to implement the status of maintenance of equipment using the program *Maximo*, The CAO identified that Beach Operations is in the beginning stages of implementation and is currently using *M5*, which tracks the maintenance status of equipment used for Beach Operations. This software is currently being tracked by the Fleet department.

Management Assertion: Not Applicable
Audit Status: Not Applicable

Appendix A – Audit Scope, Methodology, and Staffing

The audit scope included a review of the Beach Operations revenue collections process and adherence to the Interlocal agreement with the P & R Department. The scope included a review of the calendar years of 2019, 2021, and 2022. The year 2020, was not included in the scope due to the Covid-19 pandemic.

Methodology

Our methodology included inquiries with P & R and Beach Operations staff. We developed audit steps to evaluate and test permit inventory process and controls by identifying best practices in process and controls and performing data analysis and tests on beach permit transactions through reviewing compliance over revenue reporting, accuracy of beach parking statements, recalculating revenue by each governmental entity, and recalculating cost recovery.

We relied on year-end permit reconciliation statements provided by Parks to identify contracts, recalculate revenue, and cost recovery.

We relied on data from the City’s financial system, Infor, and Park’s system of record, and Finance’s system of record. We did not perform general or application control tests on the financial system; instead, we performed direct tests on the financial data. We do not believe our lack of testing controls affected the outcomes of this report.

In conducting our audit, we relied on the Interlocal Agreement as the authoritative guidance to serve as criteria for the audit.

We believe this test work provides sufficient and appropriate evidence for our audit conclusion and findings.

Staff Acknowledgement:

Gina M. Hohmann, Senior Auditor

Joseph P. Lopez, Auditor

Belia Fuentes, Auditor

Appendix B – Management Response



August 18, 2023

George H. Holland
City Auditor
Corpus Christi, Texas

Re: AU17-004 Parks and Recreation Department, Beach Parking Permits Follow-up Report

The Parks and Recreation Department has reviewed the follow-up report and provided its comments below. As there are no recommendations for management, no responses are required.

Fully Agree

Do Not Agree

Sincerely, *Robert Dodd*

Robert Dodd, Director
Parks and Recreation

8/18/23

Date

Heather Hurlbert

Heather Hurlbert
Assistant City Manager

8/25/23

Date

Peter Zanoni

Peter Zanoni
City Manager

9-5-23

Date